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R 090934Z MAY 06
FM AMEMBASSY JAKARTA
TO RUEHC/SECSTATE WASHDC 3937
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHKO/AMEMBASSY TOKYO 9777
RUEHBJ/AMEMBASSY BEIJING 3415
RUEHBY/AMEMBASSY CANBERRA 9417
RUEHUL/AMEMBASSY SEOUL 3656
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 03 JAKARTA 005852

SIPDIS

SIPDIS

DEPT FOR EAP/IET AND EB/IFD/OMA
TREASURY FOR IA-JEWELL
COMMERCE FOR 4430/GOLIKE
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO
DEPARTMENT PASS EXIM BANK

E.O. 12598: N/A

TAGS: [EFIN](#) [EINV](#) [ECON](#) [PGOV](#) [ID](#)

SUBJECT: INDONESIA - ECONOMIC AND FINANCIAL HIGHLIGHTS APRIL 2006

11. Summary. April year-on-year (YoY) inflation fell slightly to 15.4 percent from 15.74 percent in March, continuing an expected gradual downward trend. Bank Indonesia cut interest rates by 25 basis points to 12.5 percent on May 9, a widely expected move in light of inflation easing. The Indonesian rupiah continued to appreciate against the U.S. dollar in April 2006, closing at 8,775 per USD on April 28. The rupiah has strengthened more than 10 percent since the beginning of the year. Bank Indonesia's (BI) foreign exchange reserves in April increased to USD 42.8 billion based on increasing export proceeds and overseas portfolio investment inflows. Three of Indonesia's largest state-owned banks met with the Minister for State-Owned Enterprises and reportedly committed to provide Rp 7 trillion (USD 777.8 million) to finance infrastructure projects in 2006. The Government of Indonesia (GOI) approved in April the sale of its remaining ownership shares in two banks, Bank Permata (26.16 percent) and Bank Internasional Indonesia (5.52 percent). Japan announced USD 796 million of loans to Indonesia for infrastructure and development projects. End Summary.

Inflation Continues to Decline

12. On May 1, the Central Bureau of Statistics (BPS) announced that consumer price inflation grew 15.4 percent YoY in April 2006, and a negligible 0.05 percent month-on-month (MoM). A large, 0.85 percent decrease in foodstuff prices balanced off significant increases in prepared food, housing, clothing, and health care prices. According to several private investment banks, core inflation eased to 9.4 percent YoY (compared with 9.6 percent YOY in March) and 0.4 percent MoM.

13. With the decrease in YoY and MoM inflation rates, Bank Indonesia (BI) cut interest rates 25 basis points to 12.5 percent at its May 9 monetary policy meeting, a widely expected move. BI had been tightening since August 2005 and kept interest rates steady at 12.75 percent since December 6, 2005. BI Senior Deputy Governor Miranda Goeltom had told the press on May 4 that BI would not reduce interest rates to a level that would undermine the competitiveness of rupiah-denominated assets. Miranda said she was confident

that the 2006 inflation target of eight percent could still be met.

Table 1: Inflation Components - April 2006

Component	MoM	YoY
Foodstuffs	-0.85	16.38
Prepared food, beverages, Tobacco	0.43	12.67
Housing, water, electric, fuel	0.42	12.82
Clothing	0.70	8.27
Health	0.58	7.34
Education, recreation/sports	0.09	7.87
Transportation, communication and financial services	0.07	30.75
Total	0.05	15.40

Source: Central Bureau of Statistics (BPS)

Rupiah Stays Strong Against USD

(T{@\Txing over ten percent since the beginning of the year. The rupiah closed at 8,775 per USD on April 28. BI's Deputy Governor Aslim Tadjuddin reportedly commented on April 18 that it is important to prevent excessive volatility in the rupiah. He said BI would not set a target for the rupiah as the country has a floating-rate system. Coordinating Minister for the Economy Boediono said told a group of journalists on April 20 that

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authorities only intervene marginally to reduce extreme currency fluctuations.

BI Foreign Exchange Reserves Increase

15. Bank Indonesia (BI) reported its foreign exchange reserves as of the end of April were USD 42.8 billion, up from USD 34.7 billion at the end of 2005. Rising export proceeds along with continued inflows of portfolio investment were contributing factors.

Table 2: Indonesia's FX Reserves April 05-April 06

Month	USD billion
April 05	36.4
May 05	34.6
June 05	33.9
July 05	32.2
August 05	31.2
September 05	30.3
October 05	32.6
November 05	33.2
December 05	34.7
January 06	35.1
February 06	35.5
March 06	40.1
April 06	42.8

Source: Bank Indonesia

State Banks to Help Finance Infrastructure Projects

16. On April 11, senior managers of state-owned Bank Mandiri, Bank Rakyat Indonesia (BRI) and Bank Negara Indonesia (BNI) met with State Minister for State-owned Enterprises

Sugiharto and managers of state companies planning infrastructure projects. The banks reportedly committed to provide Rp 7 trillion (USD 777.8 million) to finance infrastructure projects in 2006. On April 15, the head of the GOI team for infrastructure financing, Dr. Raden Pardede, reportedly said the GOI is considering allowing private companies participating in government-sponsored infrastructure projects to issue long-term (10-20 year maturity) rupiah-denominated corporate bonds. The bonds would help finance existing infrastructure projects as well as replace short-term bank loans, Pardede said. "The scheme is still being discussed with the Capital Market Supervisory Agency (BAPEPAM)," he said.

Government to Sell Shares in Bank Permata and BII

17. The State-Owned Asset Management Company (PT Perusahaan Pengelola Aset or PPA), the successor organization to the Indonesia Bank Restructuring Agency, plans to sell the remaining GOI shares in Bank Permata and Bank Internasional Indonesia (BII) in 2006, according to press reports. PPA Vice President Director Raden Pardede said the company had received GOI approval in April. PPA also plans to appoint a financial advisor for additional divestments scheduled for the second half of 2006. The GOI owns a 26.16 percent share in Bank Permata and 5.52 percent share in BII. Table 3 below outlines GOI shareholdings in majority private Indonesian commercial banks.

Table 3: GOI Bank Ownership - May 2006

Banks	Percent
Bank Permata	26.16
BII	5.52

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Bank Niaga	5.2
Lippo Bank	2.5
BTPN	28.4
May Bank	6.1

Japan Provides Infrastructure Loans

18. In a press statement on March 31, Japan announced it would provide Indonesia USD 796 million in new loans to fund a number of infrastructure projects and development programs. The statement said the loans aim to improve Indonesia's investment climate and human resource development, as well as support the macroeconomy and ongoing governance reform. The loans have an annual interest of 0.4 to 1.5 percent, with a 30-40 year maturity. The new loans, which bring Japan's aggregate loans to Indonesia to about USD 34.5 billion, will finance several projects. These include the construction of the Tanjung Priok Port access road (USD 228 million), the Asahan No 3 hydroelectric power plant in North Sumatra (USD 237 million); the Kamojang geothermal power plant extension (USD 8 million, for engineering services only); an integrated water resource and flood management project in Semarang (USD 140 million); and projects to develop the human resources of local, provincial and central governments (USD 83 million).

Table 4: Selected Economic, Financial, and Trade Statistics, Jan - April 2006

	Jan	Feb	Mar	Apr
CPI inflation (YoY)	17.03	17.92	15.74	15.4
CPI inflation (MoM)	1.36	0.58	0.03	0.05

Rp/USD Exch. rate(1)	9,392	9,185	9,075	8,775
30-day SBI rate (1)	12.75	12.74	12.73	12.75
Foreign Res. (USD bn)(1)	35.1	35.5	40.1	42.8
JSX Composite Index(1)	1232.3	1230.7	1323.0	1464.4
Exports (USD billion)	7.51	7.35	7.45	
Percent change (YoY)	22.54	15.18	2.76	
Imports (USD billion)	4.27	4.51	4.35	
Percent change (YoY)	3.58	4.47	-12.65	
Trade Balance	3.24	2.84	3.10	

Source: Bank Indonesia, BPS, JSX
(1) End of period

PASCOE